

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Chippewa Township, Michigan</b>	County <b>Chippewa</b>
Audit Date <b>3/31/06</b>	Opinion Date <b>6/6/06</b>	Date Accountant Report Submitted to State: <b>7/26/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>16978 S. Riley Avenue</b>	City <b>Kincheloe</b>	State <b>MI</b>	ZIP <b>49788</b>
Accountant Signature <i>Anderson Tackman &amp; Co P.C.</i>			Date <b>7/26/06</b>

**CHIPPEWA TOWNSHIP, MICHIGAN**

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**BASIC FINANCIAL STATEMENTS**

March 31, 2006

**CHIPPEWA TOWNSHIP, MICHIGAN**

**ELECTED OFFICIALS**

TOWNSHIP SUPERVISOR

WILLIAM KABELMAN

TOWNSHIP TREASURER

LLOYD FRANK

TOWNSHIP CLERK

KAYE CLARKE

TOWNSHIP TRUSTEE

DARYL HOPPER

TOWNSHIP TRUSTEE

JOHN DEANGELIS

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board  
Chippewa Township, Michigan  
Eckerman, Michigan 49728

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa Township, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chippewa Township, Michigan as of March 31, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on page 3 and the budgetary comparisons are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Chippewa Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments as of April 1, 2005. This results in a change in the format and content of the basic financial statements.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

June 6, 2006

## **Management's Discussion and Analysis**

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**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

**The Township as a Whole**

The Township's combined net assets increased 173% from a year ago increasing from \$47,230 to \$128,762. In a condensed format, the table below shows a comparison of the net assets as of the current date.

The Township implemented GASB-34 accounting procedures for the period beginning April 2005; therefore a comparative analysis cannot be performed this year. A comparative analysis will not be performed in future years because Townships with a population less than 2,000 people are required to be audited every other year.

In a condensed format, the table below shows the net assets of Chippewa Township.

	Governmental Activities 2006
Current Assets	\$ 48,074
Noncurrent Assets	<u>84,077</u>
Total Assets	<u>\$ 132,151</u>
Current Liabilities	<u>\$ 3,389</u>
Net Assets:	
Invested in Capital Assets	84,077
Unrestricted	<u>44,685</u>
Total Net Assets	<u>\$ 128,762</u>



The current level of unrestricted net assets for our governmental activities stands at \$44,685, or about 45% of expenses. This is within the targeted range set by the Township Board of Trustees during its last budget process.

The following table shows the activities of the Township.

	<u>Governmental Activities 2006</u>
Program Revenues	
Charges for Services	\$ 26,749
General Revenues	
Property Taxes	14,257
State-Shared Revenues	20,927
Federal Revenues	12,105
Unrestricted Investment Earnings	349
Other Revenue	<u>21,151</u>
Total Revenues	<u>95,538</u>
Program Expenses	
General Government	54,263
Public Safety	23,970
Public Works	5,000
Depreciation Expense (unallocated)	<u>16,512</u>
Total Expenses	<u>99,745</u>
Changes in Net Assets	(4,207)
Net Assets – Beginning	<u>132,969</u>
Net Assets – Ending	<u>\$ 128,762</u>

**Governmental Activities**

The Township's total governmental revenues increased by approximately \$4,693, primarily due to the continuing increase in property tax values and increased local revenues.

Expenses, excluding depreciation decreased by only about \$83,233 during the year. This was primarily the result of close budget monitoring throughout the year.

**The Township's Funds**

Our analysis of the Township's major funds begins on page 8, following the entity-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2006 includes the General Fund and Ambulance Fund.

**General Fund Budgetary Highlights**

Over the course of the year, the Township Board amended the budget to take into account events during the year. The most significant change was the decrease in the estimated State Revenue Sharing. Township departments overall stayed below budget, resulting in total expenditures \$415 over budget. This allowed the General Fund's fund balance to decrease from \$33,100 a year ago to \$27,715 at March 31, 2006.

**Capital Asset and Debt Administration**

At the end of 2006, the Township had \$84,077 invested in a broad range of capital assets, including buildings, ambulance, and fire equipment. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Chippewa County Road Commission (along with the responsibility to maintain them).

**Economic Factors and Next Year's Budgets and Rates**

The Township's budget for 2007 calls for a freeze on property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions. Also, reductions in State Revenue sharing continues to hurt the township.

**Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Supervisor's office at: (906) 274-5416.

## **Basic Financial Statements**

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# Chippewa Township, Michigan

## Statement of Net Assets

March 31, 2006

	Governmental Activities
<b>ASSETS:</b>	
<b>Current Assets</b>	
Cash & Equivalents - Unrestricted	\$ 43,127
Accounts Receivable	2,706
Internal Balances	<u>2,241</u>
 TOTAL CURRENT ASSETS	 <u>48,074</u>
<b>Noncurrent Assets</b>	
Capital Assets, (Net of Accumulated Depreciation)	<u>84,077</u>
 TOTAL ASSETS	 <u>\$ 132,151</u>
<b>LIABILITIES AND NET ASSETS:</b>	
<b>LIABILITIES:</b>	
<b>Current Liabilities</b>	
Accounts Payable	<u>\$ 3,389</u>
 TOTAL LIABILITIES	 <u>3,389</u>
<b>NET ASSETS:</b>	
Invested in Capital Assets	84,077
Unrestricted	<u>44,685</u>
 TOTAL NET ASSETS	 <u>\$ 128,762</u>

# Chippewa Township, Michigan

## Statement of Activities For the Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues	Governmental Activities
		Charges for Services	Net (Expense) Revenue and Changes in Net Assets
<b>Governmental Activities:</b>			
General Government	\$ 54,263	\$ -	\$ (54,263)
Public Safety	23,970	26,749	2,779
Public Works	5,000	-	(5,000)
Depreciation (unallocated)	16,512	-	(16,512)
Total Governmental Activities	99,745	26,749	(72,996)
<b>General Revenues:</b>			
Taxes			14,257
Federal			12,105
State Revenue Sharing & Other			20,927
Local - General			21,151
Investment Earnings (Loss)			349
Total General Revenues			68,789
Changes in Net Assets			(4,207)
Net Assets - Beginning			132,969
Net Assets - Ending			\$ 128,762

# Chippewa Township, Michigan

## Balance Sheet Governmental Funds March 31, 2006

	General Fund	Ambulance Fund	Total Governmental Funds
<b>ASSETS:</b>			
Cash & Equivalents	\$ 23,563	\$ 19,564	\$ 43,127
Due from Other Funds	2,241	-	2,241
Accounts Receivable	2,706	-	2,706
Other Assets	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 28,510</u>	<u>\$ 19,564</u>	<u>\$ 48,074</u>
<b>LIABILITIES:</b>			
Accounts Payable	\$ 795	\$ 2,594	\$ 3,389
<b>TOTAL LIABILITIES</b>	<u>795</u>	<u>2,594</u>	<u>3,389</u>
<b>FUND BALANCES:</b>			
Unreserved:			
Undesignated	<u>27,715</u>	<u>16,970</u>	<u>44,685</u>
<b>TOTAL FUND BALANCES</b>	<u>27,715</u>	<u>16,970</u>	<u>44,685</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 28,510</u>	<u>\$ 19,564</u>	<u>\$ 48,074</u>

**Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Assets  
March 31, 2006**

Total Fund Balances – governmental funds \$ 44,685

Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. These consist of:

Capital Assets	220,485	
Accumulated Depreciation	<u>(136,408)</u>	
Total Capital Assets		<u>84,077</u>
Net Assets of Governmental Activities		<u>\$ 128,762</u>

**Chippewa Township, Michigan****Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Governmental Funds  
For the Year Ended March 31, 2006**

	General Fund	Ambulance Fund	Totals Governmental Funds
<b>REVENUES:</b>			
Taxes	\$ 14,257	\$ -	\$ 14,257
Federal Sources	12,105	-	12,105
State Sources	20,927	-	20,927
Local Sources	16,301	-	16,301
Charges for Services	-	26,749	26,749
Interest	288	61	349
Rentals	4,850	-	4,850
<b>TOTAL REVENUES</b>	<b>68,728</b>	<b>26,810</b>	<b>95,538</b>
<b>EXPENDITURES:</b>			
General Government	54,263	-	54,263
Public Safety	-	23,970	23,970
Public Works	5,000	-	5,000
Capital Outlay	14,850	-	14,850
<b>TOTAL EXPENDITURES</b>	<b>74,113</b>	<b>23,970</b>	<b>98,083</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(5,385)</b>	<b>2,840</b>	<b>(2,545)</b>
<b>FUND BALANCES, APRIL 1</b>	<b>33,100</b>	<b>14,130</b>	<b>47,230</b>
<b>FUND BALANCES, MARCH 31</b>	<b>\$ 27,715</b>	<b>\$ 16,970</b>	<b>\$ 44,685</b>



**Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental  
Funds to the Statement of Activities  
For the Year Ended March 31, 2006**

Net Changes in fund balances - total governmental funds \$ (2,545)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation.

Capital Outlay	14,850
Depreciation expense	<u>(16,512)</u>

Changes in net assets of governmental activities	<u><u>\$ (4,207)</u></u>
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**Statement of Fiduciary Net Assets  
Fiduciary Funds  
March 31, 2006**

	<u>Current Tax Collection Fund</u>
<b>ASSETS:</b>	
Cash & Equivalents	<u>\$        2,241</u>
 TOTAL ASSETS	 <u><u>\$        2,241</u></u>
<b>LIABILITIES:</b>	
Due to Other Funds	<u>\$        2,241</u>
 TOTAL LIABILITIES	 <u><u>\$        2,241</u></u>

## **Notes to the Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Chippewa Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Township:

**A – Financial Reporting Entity:**

Chippewa Township ("The Township") is a regular law Michigan township located in the eastern portion of Michigan's Upper Peninsula.

The Township operates under an elected Board of Trustees and provides services to its residents in many areas including ambulance protection, community enrichment, and development.

The Township, for financial purposes, includes all of the funds and account groups relevant to the operations of Chippewa Township. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Chippewa Township.

**B – Government-Wide and Fund Financial Statements:**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Taxes Receivable – Current or Property Taxes**

The Chippewa Township property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Chippewa as of the preceding December 31st and July 1st.

The December 1, 2005 taxable valuation of Chippewa Township totaled \$6,363,100, on which ad valorem taxes levied consisted of 1.5196 mills for the Township operating. This amount is recognized in the General Fund financial statements as tax revenue.

In addition to collecting their taxes, the Township also acts as a collection agent for all overlapping governments in the Township. The Township's portion of the tax is collected between December 1 and February 28. Unpaid taxes are subsequently turned over to the County Treasurer for collection. The County maintains a tax revolving fund which permits the County to pay the Township 100% of the delinquent real taxes within approximately two to three months after the delivery of the delinquent bills.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Township reports the following major governmental funds:

**General Fund**

This is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Ambulance Fund**

This fund accounts for Ambulance services to residence of Chippewa Township.

Additionally, the Township reports the following funds:

**Agency Funds**

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****D - Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

Capital Assets – Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment is depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	15 - 39 years
Equipment and Furniture	3 - 10 years

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Fund Balance – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Interfund Transfers – During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by Township management.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information – The Township Board created a budget for fiscal year 2006.

Budgets and Budgetary Control – The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each March, after receiving input from the individual departments, the Board prepares a proposed operating budget for the fiscal period commencing April 1 and lapses on March 31. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Trustees. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year-end.

Budgeted amounts are as originally adopted or amended by the Board of Trustees during the year. Individual amendments were not material in relation to the original appropriations, which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund budget was adopted on the basis of activities or programs financed by the General Fund.



**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

At year end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash and Equivalents	\$ 43,127	2,241
Total	<u>\$ 43,127</u>	<u>\$ 2,241</u>

**Investment and Deposit Risk**

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Township does not have an investment policy.

*Credit risk.* The Township has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$0 of the Township's bank balance of \$46,076 was exposed to credit risk because it was uninsured and uncollateralized.

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the Township to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Township's deposits are in accordance with statutory authority.

**NOTE 4 - RECEIVABLES**

Receivables as of year-end for the government's individual major funds are as follows:

	General Fund	Total
Receivables:		
Accounts	\$ 2,706	\$ 2,706
Due From Others	<u>2,241</u>	<u>2,241</u>
Net Receivables	<u>\$ 4,947</u>	<u>\$ 4,947</u>

**NOTE 5 - CAPITAL ASSETS**

A summary of capital assets are as follows:

	Beginning Balances	Increases	Adjustments/ Decreases	Ending Balances
Land	\$ 38,000	\$ -	\$ -	\$ 38,000
Buildings and Improvements	57,635	14,850	-	72,485
Furniture, Fixtures, and Equipment	<u>110,000</u>	<u>-</u>	<u>-</u>	<u>110,000</u>
Subtotal	205,635	14,850	-	220,485
Accumulated Depreciation:				
Furniture and Fixtures	<u>(119,896)</u>	<u>(16,512)</u>	<u>-</u>	<u>(136,408)</u>
Net Capital Assets	<u>\$ 85,739</u>	<u>\$ (1,662)</u>	<u>\$ -</u>	<u>\$ 84,077</u>

Depreciation was not allocated by function during 2006.

**NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES**

The Township reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
	General Fund
Agency Fund	<u>2,241</u>
Total	<u>\$ 2,241</u>

**NOTE 7 - CONTINGENCIES:**

Risk Management – The Township of Chippewa is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, as well as workmen's compensation benefits provided to employees. The Township participates in the Michigan Township Participating Plan for general liability, property loss, automobile, professional, public official errors and omissions liabilities. In addition, the Township has purchased commercial insurance for workmen's compensation benefits.

Settled claims for the insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through insurance during the past year.

**NOTE 8 - CHANGE IN ACCOUNTING PRINCIPLE**

Effective April 1, 2005, the Township implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant changes in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

**NOTE 9- BUDGET VIOLATIONS:**

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts were as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government	\$ 53,848	\$ 54,263	\$ (415)

## **Required Supplemental Information**

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# Chippewa Township, Michigan

## Required Supplemental Information Budgetary Comparison Schedule General Fund For the Year Ended March 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 13,390	\$ 14,257	\$ 14,257	\$ -
State Sources	21,673	17,640	20,927	3,287
Federal Sources	11,750	17,088	12,105	(4,983)
Local Sources	7,092	14,463	16,301	1,838
Interest	500	321	288	(33)
Rentals	200	4,850	4,850	-
TOTAL REVENUES	54,605	68,619	68,728	109
EXPENDITURES:				
General Government:				
Supervisor	2,400	2,400	2,400	-
Treasurer	2,595	2,891	2,891	-
Clerk	2,400	2,395	2,245	150
Trustees	720	720	720	-
Assessor	3,625	3,845	3,845	-
Board of Review	540	540	540	-
Township Hall & Grounds Activities	35,911	29,611	30,414	(803)
Elections	1,500	1,323	1,085	238
Insurance	10,000	9,621	9,621	-
Professional	450	502	502	-
Total General Government	60,141	53,848	54,263	(415)
Public Works:				
Road Work	5,000	5,000	5,000	-
Total Public Works	5,000	5,000	5,000	-
Capital Outlay	500	14,850	14,850	-
TOTAL EXPENDITURES	65,641	73,698	74,113	(415)
EXCESS OF REVENUES UNDER EXPENDITURES	(11,036)	(5,079)	(5,385)	(306)
FUND BALANCE, APRIL 1			33,100	
FUND BALANCE, MARCH 31			\$ 27,715	

# Chippewa Township, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Ambulance Fund For the Year Ended March 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for Services	\$ 23,700	\$ 26,643	\$ 26,749	\$ 106
Interest	200	61	61	-
TOTAL REVENUES	23,900	26,704	26,810	106
EXPENDITURES:				
Public Safety	25,285	24,363	23,970	393
TOTAL EXPENDITURES	25,285	24,363	23,970	393
EXCESS OF REVENUES OVER EXPENDITURES	(1,385)	2,341	2,840	499
FUND BALANCE, APRIL 1			14,130	
FUND BALANCE, MARCH 31			\$ 16,970	





**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

Board of Trustees  
Chippewa Township, Michigan  
Eckerman, Michigan

We have audited the financial statements of Chippewa Township, Michigan for the year ended March 31, 2006, and have issued our reports thereon dated June 6, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Chippewa Township, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Chippewa Township's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

In planning and performing our audit of the financial statements, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management to the financial statements.

Reportable conditions:

- 1) Absence of appropriate segregation of duties for transactions, accounting entries, or systems output.
- 2) Inadequate procedures for appropriately assessing and applying accounting principles.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. None of the reportable conditions described above is considered to be a material weakness, however.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

**Significant Accounting Policies**

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by Chippewa Township are described in Note 1 to the financial statements. As described in Note 8 to the financial statements, Chippewa Township changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GABS Statement) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* in April 2005. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Assets. We noted no transactions entered into by Chippewa Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

### **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township, either individually or in the aggregate, indicate matters that could have a significant effect on the Township's financial process.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Chippewa Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

## **Comments and Recommendations**

### **Policies**

During several discussions with Township Treasurer, we found the Township does not have written policies for accounting procedures nor a credit card policy. It is recommended the Township prepare and adopt written policies for accounting procedures and a credit card policy.

### **Conflict of Interest/Competitive Bids**

The Township currently has no conflict of interest policy on competitive bids in place. These policies ensure related parties abstain from voting on related issues and allow for competitive pricing on contracts the Township enters into.

### **Board Minutes**

Several board meeting minutes were not maintained at the Town Hall office. We recommend all board minutes be available at the Township in one central location as a matter of public record.

### **Disbursement Approval**

The Board should approve all invoices prior to payment per Michigan Department of Treasury guidelines.

### **Segregation of Duties**

Due to limited staff, several transactions are handled entirely by the Treasurer. We recommend greater involvement by other Township officials to appropriately segregate several of the duties involving cash to strengthen internal controls for the organization.

### **Accrual Basis of Accounting**

The Township needs to incorporate the modified accrual basis of accounting into its interim financial statements. Numerous adjustments were made to attain the modified accrual basis of accounting.

## **Conclusion**

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing any of the above recommendations, please contact us.

This information is intended solely for the use of the Township Board, the cognizant audit agencies and other federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in blue ink that reads "Anderson, Tackman & Co., PLC". The signature is written in a cursive, flowing style.

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

June 6, 2006